

DIRECT TESTIMONY
OF
GREG ROCKROHR
ENGINEERING DEPARTMENT
ENERGY DIVISION
ILLINOIS COMMERCE COMMISSION

INTERSTATE POWER AND LIGHT COMPANY
DOCKET NO. 02-0571

Application for Approval of Affiliated Interest Contracts

January 13, 2003

1 Q. **Please state your name and business address.**

2 A. My name is Greg Rockrohr. My business address is 527 East Capitol Avenue,
3 Springfield, Illinois 62701.

4 Q. **By whom are you employed and in what capacity?**

5 A. I am employed by the Illinois Commerce Commission ("Commission") as a Senior
6 Energy Engineer in the Electric Section of the Engineering Department of the
7 Energy Division. As such I review various planning and operating practices of
8 electric utilities that operate in Illinois, and at times provide opinions or guidance
9 to the Commission through staff reports and testimony.

10 Q. **Please state your educational background.**

11 A. I hold a Bachelor of Science degree in Electrical Engineering from Valparaiso
12 University, and am a registered professional engineer in the state of California.

13 Q. **Please state your professional work experience.**

14 A. Prior to coming to the Commission, I was employed as an electrical engineer by
15 Pacific Gas and Electric Company for 18 years, working in distribution planning
16 most recently, and previously in the areas of vegetation management, service
17 planning, and construction. I also worked as an electrical engineer at Northern
18 Indiana Public Service Company during the period 1980 through 1983.

19 Q. **What is the purpose of your testimony?**

20 A. On September 6, 2002, Interstate Power and Light Company ("IPL") filed an
21 application to the Illinois Commerce Commission ("Commission"), pursuant to
22 Section 7-101(3) of the Illinois Public Utilities Act. Section 7-101(3) provides that
23 a regulated entity shall not enter into a contract or agreement with an affiliate

24 unless the entity first gains approval to do so from the Commission. In addition,
25 the Commission may disallow or condition its approval in order to safeguard the
26 public interest. I was assigned to review IPL's application to the Commission,
27 and provide my opinion as to whether the Commission should disallow or
28 condition the contract assignment to safeguard the public interest.

29 Q. **Will you briefly describe the contract or agreement that is the subject of**
30 **IPL's application?**

31 IPL requests Commission approval to be partially assigned two separate
32 contracts presently held by its non-regulated affiliate, Alliant Energy Resources,
33 Inc. ("AER").

34 Q. **What equipment will IPL purchase with the two contracts if Commission**
35 **approval is granted?**

36 A. One contract, with Alstom Power, Inc. ("Alstom"), provides for the purchase of
37 two heat recovery steam generators. A second contract, with General Electric
38 Company Inc. ("GE"), provides for the purchase of two combustion turbine
39 generators, and one steam turbine generator, with associated equipment.

40 Q. **How did AER acquire the full rights to the equipment IPL proposes to**
41 **purchase from Alstom?**

42 A. AER originally entered into a business agreement with Panda Energy ("Panda")
43 to develop merchant generation projects in September 2001. It appears that
44 Panda and AER were joint investors in Tallmadge Generation Company, LLC
45 ("Tallmadge"). It is my understanding that the Tallmadge project is no longer
46 justified on an economic basis due to the decline in wholesale power prices.

Subsequently, Tallmadge acquired all of Panda's rights to the equipment and then agreed to an assignment of the equipment to AER at cost. AER apparently could not find a higher valued use and has since agreed to the partial assignment of the heat recovery steam generators to IPL at cost. It is also my understanding that Alstom agreed to AER's proposed partial assignment of the equipment to IPL. (IPL Exhibit 1.0, pp. 5-6)

Q. Did AER obtain rights to the GE equipment in a similar manner?

A. Yes. In June 2000, AER and Corn Products International ("CPI") jointly formed Argo Power LLC ("Argo"). Subsequently, CPI ended its partnership in Argo and Argo assigned the GE equipment to AER at cost. AER now seeks a partial assignment of the GE equipment at cost to IPL. (IPL Exhibit 1.0, pp. 6-7)

Q. What will IPL do with this equipment if the Commission approves its application?

A. IPL plans to use the equipment in a new generating plant in Iowa, called Power Iowa Energy Center ("PIEC"), near Mason City. The PIEC is to be on-line for the summer of 2004. The Iowa Utility Board ("IUB") granted a certificate for IPL's construction of the PIEC on September 13, 2002, in its Docket No. GCU-02-2.

Q. Based on your investigation, what is your recommendation regarding this affiliate interest?

A. I recommend that the Commission approve IPL's application.

Q. How did you come to this conclusion?

A. I determined what conditions would exist in order for it to be necessary for the Commission to disallow or condition the application. For example, AER may be

seeking to unload equipment that it is obligated to purchase but no longer needs, onto IPL, its regulated affiliate, at an inflated price. Such a transaction could cause the public to absorb AER's financial losses, and so would not be in the public interest. I determined that gaining answers to three questions could establish whether the Commission should disallow or condition IPL's application.

Q. To what three questions did you seek answers prior to making your recommendation?

My recommendation to the Commission is based on answers to the following:

- Can IPL demonstrate that it needs additional generation capacity by the summer of 2004? (If not, IPL has no need for the PIEC or the equipment.)
- Can IPL demonstrate that its utility-build option is the least-cost option to obtain the required generation capacity? (If not, another company should build the PIEC, and IPL would have no need for the equipment.)
- Can IPL demonstrate that the price it plans to pay for the generation equipment through use of AER's contracts will not unfairly benefit its affiliate at the expense of its customers? (If not, IPL should obtain the necessary equipment from another source at a lower cost.)

Q. Did you obtain an affirmative answer to each of these questions?

A. Yes.

Q. What steps did you follow to obtain these affirmative answers?

A. After reviewing IPL's application, I requested that IPL provide information relating to its need and anticipated costs for the PIEC. In addition I requested that IPL

provide information to indicate the market value for the equipment IPL proposes to purchase through use of AER's contracts.

Q. **How did IPL demonstrate that additional capacity is required by the summer of 2004?**

A. As part of its response to my request that IPL demonstrate its need for the PIEC, IPL provided a copy of its Application for Ratemaking Principles ("ARP") that it submitted to the Iowa Utility Board ("IUB"). In its ARP, IPL included system historical loads, estimated system load growth, available system generation resources by year, and testimony from various IPL witnesses in support of the PIEC. Through the information IPL provided in its application and in its responses to data requests, IPL demonstrated that it will need additional generating resources of some type by the summer of 2004 to meet load and Mid-America Interconnected Network, Inc. ("MAIN") reserve requirements.

Q. **How did IPL demonstrate that its utility-build option is the least-cost option to obtain the required generation capacity?**

A. Within the ARP, IPL provided a copy of its RFP (request for proposal), all the proposals third parties submitted in response to it, and its own utility-build proposal. IPL included its steps and rationale to develop a short list, and finally to determine that IPL's utility-build option is least-cost. I agree with IPL's steps and rationale, and with its conclusion. Reviewing the bid process was important because the IUB does not require that the least-cost option be chosen to receive its certification, but instead requires that the utility demonstrate that a "reasonable" alternative be chosen.

115 Q. **How did IPL demonstrate that the price it plans to pay for the generation**
116 **equipment through use of AER's contracts would not unfairly benefit its**
117 **affiliate at the expense of its customers?**

118 A. IPL provided opinions from two separate engineering consulting firms that stated
119 the price IPL plans to pay for the equipment through use of the AER contracts is
120 within the range of prices for "similar" equipment. Both of these firms have had
121 additional business relationships with IPL or its affiliates. IPL also provided
122 information from an entity that had no other business association with IPL or its
123 affiliates, Belyea Company Incorporated ("Belyea"). Belyea corroborated the
124 opinions from the engineering consultants. Unfortunately, IPL was unable to
125 decisively demonstrate that the price it plans to pay for the generating equipment
126 is least-cost, however, it demonstrated that the price it plans to pay through use
127 of AER's contracts is competitive.

128 Q. **What is Belyea's business, and why is its report significant?**

129 A. Belyea buys, sells, and lists generation equipment on the secondary market. In
130 its report, Belyea included a list of available generation equipment of various
131 functions and types, along with the year of manufacture and associated pricing.
132 In addition to owning equipment itself, Belyea lists equipment on behalf of others.
133 Notably, Belyea's list included three new surplus GE combustion turbine
134 generators of the same type IPL plans to purchase from GE through the use of
135 AER's contracts. IPL's cost for the combustion turbines is lower through use of
136 AER's contracts than if it were to pay the price asked by Belyea's client. IPL did
137 not attempt any negotiation with the owners of the GE combustion turbines listed

by Belyea, so the seller may have accepted a lower offer. However, I believe the content of Belyea's price list indicates the price IPL plans to pay for the GE combustion turbines through use of AER's contracts is not unreasonably high.

Q. **Does the list provided by Belyea also include matches for the other equipment IPL plans to purchase using AER's contracts?**

A. Unfortunately, the list of equipment provided by Belyea did not provide for similar pricing comparisons for the GE steam generator or the two Alstom heat recovery steam generators that IPL plans to purchase.

Q. **Did IPL consider any other issues when comparing the equipment purchase through use of AER's contracts to other options?**

A. Yes. IPL makes the additional point that, unlike equipment purchased in the secondary market (surplus or used equipment), IPL would obtain new equipment warranty coverage from both GE and Alstom through use of AER's contracts. However, even without consideration of the warranty issue, IPL demonstrated that the price it plans to pay for the GE combustion turbine generators is comparable to prices available for like or similar equipment on the secondary market.

Q. **If the Commission were to approve IPL's application, would the price IPL plans to pay for the generation equipment through use of AER's contracts unfairly benefit its affiliate at the expense of its customers?**

A. No. I believe IPL adequately demonstrated that the price it intends to pay for the critical equipment through use of AER's contracts would not unfairly benefit its affiliate at the expense of its ratepayers.

161 Q. **Does IPL seek rate recovery of the equipment or PIEC in this proceeding?**

162 A. No, as previously mentioned, IPL filed an application pursuant to Section 7-
163 101(3). Pursuant to Section 7-101(3):

164 The consent to, or exemption or waiver of consent to, any contract or
165 arrangement under this Section or Section 16-111, does not constitute
166 approval of payments thereunder for the purpose of computing expense of
167 operation in any rate proceeding.

168 Therefore, IPL must file an application with the Commission for approval to
169 include the costs in base rates. Further, under Section 9-212 of the Public Utility
170 Act, IPL will not recover any costs associated with the PIEC from Illinois
171 ratepayers unless and until the Commission determines that construction of the
172 PIEC (as a whole) was prudent, and is used and useful.

173 Q. **In what ways is the analysis you completed for this case comparable to and
174 different from an analysis you would complete for a determination of the
175 prudence and used and usefulness of the PIEC under Section 9-212 of the
176 Public Utilities Act?**

177 A. Section 9-212 of the Public Utilities Act allows electric utility generating plants to
178 be included in a utility's rate base only if the Commission determines that such
179 plant is both prudent and used and useful in providing utility service to the utility's
180 customers. My analysis with respect to prudence in this case is the same
181 analysis I would perform to investigate the prudence of IPL's decision to construct
182 the PIEC under Section 9-212. This is because there would be no reason for IPL
183 to purchase the generating equipment that is the subject of its application if the

184 project for which the equipment is intended is not deemed prudent. By "prudent"
185 I mean that all available evidence indicates that the PIEC is necessary to meet
186 customer demand or is economically beneficial in meeting that demand.
187 In contrast, I did not consider the "used and useful" provision as described in
188 Section 9-212 because the PIEC cannot be determined used and useful until
189 such time that it is capable of generating electricity.

190 Q. **In your opinion, has IPL acted prudently in deciding to build the PIEC and in**
191 **deciding to acquire the equipment that is the subject of this case?**

192 A. Yes.

193 Q. **Does this conclude your direct testimony?**

194 A. Yes.